

CITY OF EDGEWOOD

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2010

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CITY OF EDGEWOOD
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	(Before January, 2010)	
James Stone	Mayor	Jan. 2010
Bruce West	Mayor Pro tem	Jan. 2010
Brad Perrinjaquet	Council Member	Jan. 2012
James Fannon	Council Member	Jan. 2010
Bruce Hemann	Council Member	Jan. 2010
Frank Riester	Council Member	Jan. 2010
	(After January, 2010)	
James Stone	Mayor	Jan. 2012
James Fannon	Mayor Pro tem	Jan. 2012
Brad Perrinjaquet	Council Member	Jan. 2012
Bruce West	Council Member	Jan. 2014
Frank Riester	Council Member	Jan. 2014
Bruce Hemann	Council Member	Jan. 2014
Cindy Vorwald	Clerk/Treasurer	Indefinite
William G. Blum	Attorney	Indefinite

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Edgewood as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Edgewood's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2009.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by activity of the cash basis net assets and the dis-

tribution by fund of the cash balances at July 1, 2009, as discussed in the preceeding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Edgewood as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 13, 2010 on our consideration of the City of Edgewood's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 28 through 29 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Edgewood's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the cash balances at July 1, 2009, as it relates to Schedule 1, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa

August 13, 2010

Dietz, Donald & Company
Dietz, Donald and Company, CPA's
FEIN 42-1172392



MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Edgewood provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow. However, keep in mind that Chapter 11 of the Code of Iowa requires the City to have an audit once every four years because our population is less than 2,000 people. Therefore, any financial information presented herein for the fiscal year ended June 30, 2009 has not been audited.

2010 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased by 46.0% or approximately \$ 390,000, from fiscal 2009 to fiscal 2010. Loan proceeds increased \$ 321,000, insurance proceeds increased over \$ 60,000 and property taxes (including TIF receipts) increased over \$ 16,000.

Disbursements of the City's governmental activities increased 12.9%, or approximately \$ 111,000, in fiscal 2010 from fiscal 2009. Culture and recreation, general government, and capital projects disbursements increased approximately \$ 10,000, \$ 18,000 and \$ 134,000 respectively.

The City's total cash basis net assets increased 35.6%, or approximately \$ 238,000 from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities increased approximately \$ 266,000 and the assets of the business type activities decreased by approximately \$ 28,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) The General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$ 514,000 to approximately \$ 780,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	Year Ended June 30,	
	2010	2009
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 162	151
Operating grants, contributions and restricted interest	97	115
Capital grants, contributions, and restricted interest	10	-
General receipts:		
Property tax	450	434
Local option sales tax	67	76
Unrestricted interest on investments	11	13
Loan proceeds	350	29
Other general receipts	89	28
Total receipts	<u>1,236</u>	<u>846</u>
Disbursements:		
Public safety	92	98
Public works	141	171
Health and social services	1	1
Culture and recreation	119	109
Community and economic development	221	236
General government	103	85
Debt service	40	40
Capital projects	253	119
Total disbursements	<u>970</u>	<u>859</u>
Change in cash basis net assets	266	(13)
Cash basis net assets beginning of year	<u>514</u>	<u>527</u>
Cash basis net assets end of year	<u>\$ 780</u>	<u>514</u>

The City's total receipts for governmental activities increased 46.0%, or approximately \$ 390,000. The total cost of all programs and services increased approximately \$ 111,000 or 12.9%, with no new programs added this year. The significant increase in receipts was primarily the result of borrowing \$ 350,000 for the 2009 street project.

The City increased property tax rates for 2010 an average of 1.9%. This increase raised the City's property tax receipts approximately \$ 16,000 in 2010. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase an additional \$ 43,000 next year.

The cost of all governmental activities this year was approximately \$ 970,000 compared to approximately \$ 859,000 last year. However, as shown in the Statement of Activities and Net Assets on page 15 the amount taxpayers ultimately financed for these activities was only \$ 701,000 because some of the cost was paid by those directly benefited from the programs (\$ 162,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 107,000). Overall, the City's governmental activities program receipts including intergovernmental aid and fees for service, increased in 2010 from approximately \$ 266,000 to approximately \$ 269,000. The City paid for the remaining "public benefit" portion of governmental activities (\$ 701,000) with taxes (some of which could only be used for certain programs) and other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2010	2009
Receipts and transfers:		
Program receipts:		
Charges for service:		
Water	\$ 102	106
Sewer	121	113
Capital grants, contributions and restricted interest	306	-
General receipts:		
Unrestricted interest on investments	2	3
Other general receipts	3	4
Total receipts	<u>534</u>	<u>226</u>
Disbursements:		
Water	148	127
Sewer	414	97
Total disbursements	<u>562</u>	<u>224</u>
Change in cash basis net assets	(28)	2
Cash basis net assets beginning of year	152	150
Cash basis net assets end of year	<u>\$ 124</u>	<u>152</u>

Total business type activities receipts for the fiscal year were approximately \$ 534,000 compared to \$ 226,000 last year. This significant increase was due primarily to the receipt of \$ 279,000 in state grants and \$ 27,000 from a Community Development Block Grant. The cash balance decreased approximately \$ 28,000 from the prior year because some of the wastewater treatment plant was internally financed. Total disbursements for the fiscal year increased 151% to approximately \$ 562,000. This increase was due to spending approximately \$ 291,000 more on the wastewater treatment plant project in 2010 than in 2009.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Edgewood completed the year, its governmental funds reported a combined fund balance of \$ 779,885, an increase of nearly \$ 266,000 from last year's total of \$ 514,280. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$ 83,678 from the prior year to \$ 372,387. General fund receipts were nearly \$ 65,000 more than in 2009, the single largest factor contributing to the increased cash balance.

The Urban Renewal Tax Increment Fund was established to account for major urban renewal projects within the City. At the end of the fiscal year, the cash balance was \$ 63,390, an increase of \$ 23,453 from the previous year. These funds will be used for various construction and refurbishing projects within the urban renewal district.

The Local Option Sales Tax Fund increased by \$ 34,306 to \$ 193,040. These funds will be disbursed in accordance with the ballot measure authorizing the sales tax.

The 2009 Street Project Fund was established to account for the expenditure of funds for a major street improvement project in the City. The fund began the year with a deficit balance of \$ 26,406 and ended the year with a cash balance of \$ 89,000. During the year \$ 234,594 was spent on the street project. The project was funded by a \$ 350,000 bank loan.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

The Water Fund cash balance decreased \$ 45,269 to \$ 54,384 due primarily to an increase of \$ 21,000 in water system disbursements.

The Sewer Fund cash balance increased \$ 17,262 to \$ 70,000.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on December 7, 2009 and resulted in an increase in capital disbursements of approximately \$ 188,000 related to various projects in the City, additional water and sewer expenses of \$ 751,000 and other miscellaneous expenses of \$ 140,000. This amendment would be financed with \$ 137,000 of insurance proceeds, \$ 10,000 of special assessments and \$ 925,000 of loan proceeds.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$ 781,493 in bonds and other long-term debt, compared to \$ 560,717 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2010	2009
General obligation notes	\$ 213	318
Urban renewal tax increment financing revenue notes	407	69
Revenue bonds	136	143
Contract payable	25	31
Total	<u>\$ 781</u>	<u>561</u>

Debt increased as a result of issuing \$ 350,000 of urban renewal tax increment financing revenue notes for a street improvement project.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation and TIF debt of \$ 645,000 is significantly below its constitutional debt limit of \$ 1.9 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Edgewood's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in Clayton and Delaware Counties has run higher than the State's unemployment rate of 6.2 percent. Tax assessed values

decreased approximately \$ 663,000 or 3.8%. Over the last 30 years the City has grown 137 to 923.

These indicators were taken into account when adopting the budget for fiscal year 2011. Amounts available for appropriation in the operating budget are approximately \$ 2.3 million, a decrease of 8.7% under the final 2010 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$ 109,000 by the close of 2011.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cindy Vorwald, City Clerk, 203 West Union, Edgewood, Iowa 52042-0397.

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF EDGEWOOD
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the Year Ended June 30, 2010

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Public safety	\$ 92,513	73,111	8,118	10,000	(1,284)	-	(1,284)
Public works	140,709	44,504	85,619	-	(10,586)	-	(10,586)
Health and social services	1,000	-	-	-	(1,000)	-	(1,000)
Culture and recreation	118,788	17,763	3,654	-	(97,371)	-	(97,371)
Community and economic development	220,766	4,400	-	-	(216,366)	-	(216,366)
General government	103,118	4,157	-	-	(98,961)	-	(98,961)
Debt service	39,856	17,914	-	-	(21,942)	-	(21,942)
Capital projects	253,353	-	-	-	(253,353)	-	(253,353)
Total governmental activities	970,103	161,849	97,391	10,000	(700,863)	-	(700,863)
Business type activities:							
Water	147,906	101,515	-	-	-	(46,391)	(46,391)
Sewer	413,517	123,821	-	306,248	-	16,552	16,552
Total business type activities	561,423	225,336	-	306,248	-	(29,839)	(29,839)
Total	\$ 1,531,526	387,185	97,391	316,248	(700,863)	(29,839)	(730,702)
General Receipts							
Property and other city tax levied for:					199,923	-	199,923
General purposes					40,277	-	40,277
Debt service					209,577	-	209,577
Tax increment financing					66,806	-	66,806
Local option sales tax					11,424	1,832	13,256
Unrestricted interest on investments					350,000	-	350,000
Loan proceeds					73,431	-	73,431
Miscellaneous					15,000	-	15,000
Sale of assets					966,438	1,832	968,270
Total general receipts					265,575	(28,007)	237,568
Change in cash basis net assets					514,280	152,391	666,671
Cash basis net assets beginning of year					\$ 779,855	124,384	904,239
Cash basis net assets end of year							
Cash Basis Net Assets:							
Restricted:					\$ 152,390	-	152,390
Urban renewal purposes					35,596	-	35,596
Streets					6,884	-	6,884
Library					1,154	12,788	13,942
Debt service					237,353	-	237,353
Other purposes					346,478	111,596	458,074
Unrestricted					\$ 779,855	124,384	904,239
Total cash basis net assets							

See notes to financial statements

Exhibit B

CITY OF EDGEWOOD
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2010

	Special Revenue		Capital Projects	Other Nonmajor Governmental Funds	Total
	General	Urban Renewal Tax Increment	Local Option Sales Tax	2009 Street Project	
Receipts:					
Property tax	\$ 165,330	-	-	-	238,027
Tax increment financing	-	209,577	-	-	209,577
Other city tax	962	-	66,806	-	67,768
Licenses and permits	3,025	-	-	-	3,025
Use of money and property	11,424	4,400	-	-	15,861
Intergovernmental	46,251	-	-	-	85,619
Charges for service	107,432	-	-	-	107,432
Special assessments	-	-	-	-	17,914
Miscellaneous	76,978	-	-	-	2,226
Total receipts	411,402	213,977	66,806	-	178,493
Disbursements:					
Operating					
Public safety	92,513	-	-	-	92,513
Public works	61,565	-	-	-	79,144
Health and social services	1,000	-	-	-	1,000
Culture and recreation	110,915	-	7,500	-	373
Community and economic development	30,242	190,524	-	-	220,766
General government	74,338	-	-	-	28,780
Debt service	-	-	-	-	39,856
Capital projects	-	-	-	234,594	18,759
Total disbursements	370,573	190,524	7,500	234,594	166,912
Excess (deficiency) of receipts over (under) disbursements	40,829	23,453	59,306	(234,594)	11,581
Other financing sources (uses):					
Loan proceeds	-	-	-	350,000	-
Sale of assets	15,000	-	-	-	-
Operating transfers in	27,849	-	-	-	-
Operating transfers out	-	-	(25,000)	-	(2,849)
Total other financing sources (uses)	42,849	-	(25,000)	350,000	(2,849)
Net change in cash balances	83,678	23,453	34,306	115,406	8,732
Cash balances beginning of year	288,709	39,937	158,734	(26,406)	53,306
Cash balances end of year	\$ 372,387	63,390	193,040	89,000	62,038

(continued)

Exhibit B
(continued)

CITY OF EDGEWOOD
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2010

	General	Special Revenue Urban Renewal Tax Increment	Local Option Sales Tax	Capital Projects 2009 Street Project	Other Nonmajor Governmental Funds	Total
Cash Basis Fund Balances						
Reserved for debt service	\$ -	-	-	-	37,196	37,196
Unreserved, designated:						
Fire	66,510	-	-	-	-	66,510
Ambulance	31,488	-	-	-	-	31,488
Unreserved, undesignated:						
General fund	274,389	-	-	-	-	274,389
Special revenue funds	-	63,390	193,040	-	50,751	307,181
Capital projects funds	-	-	-	89,000	(25,909)	63,091
Total cash basis fund balances	\$ 372,387	63,390	193,040	89,000	62,038	779,855

See notes to financial statements

CITY OF EDGEWOOD
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2010

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 95,278	121,456	216,734
Operating disbursements:			
Business type activities	136,258	83,918	220,176
Excess (deficiency) of operating receipts over (under) operating disbursements	(40,980)	37,538	(3,442)
Non-operating receipts (disbursements):			
Intergovernmental	-	306,248	306,248
Interest on investments	1,122	710	1,832
Miscellaneous	6,237	2,365	8,602
Debt service	(11,648)	-	(11,648)
Capital projects	-	(329,599)	(329,599)
Net non-operating receipts (disbursements)	(4,289)	(20,276)	(24,565)
Excess (deficiency) of receipts over (under) disbursements	(45,269)	17,262	(28,007)
Cash balances beginning of year	99,653	52,738	152,391
Cash balances end of year	\$ 54,384	70,000	124,384
Cash Basis Fund Balances:			
Reserved for debt service	\$ 12,788	-	12,788
Unreserved	41,596	70,000	111,596
Total cash basis fund	\$ 54,384	70,000	124,384

See notes to financial statements.

City of Edgewood

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

The City of Edgewood is a political subdivision of the State of Iowa located in Delaware and Clayton Counties. It was first incorporated in 1892 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Edgewood has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Delaware County Solid Waste Commission, Delaware County Economic Development Commission,

Delaware and Clayton County E911 Service Boards and Edgewood Board of Economic Development.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Local Option Sales Tax Fund is used to account for the receipt and disbursement of the 1% local option sales tax.

The Capital Project - 2009 Street Project Fund is used to account for all receipts and disbursements related to the 2009 Street Project.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Edgewood maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimburse-

ment grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City. At June 30, 2010, the City had \$ 78,720 invested in certificates of deposit.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Urban Renewal Tax Increment Financing (TIF) Notes		Contract Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 45,502	9,490	100,254	17,681	5,886	1,000
2012	32,461	7,415	101,146	13,671	6,122	764
2013	34,027	5,888	102,099	8,399	6,367	519
2014	35,652	4,287	103,119	3,660	6,619	267
2015	37,353	2,610	888	30	-	-
2016-2020	27,998	852	-	-	-	-
2021-2025	-	-	-	-	-	-
Total	\$ 212,993	30,542	407,506	43,441	24,994	2,550

Year Ending June 30,	Revenue Bonds		Total	
	Principal	Interest	Principal	Interest
2011	\$ 7,000	4,080	158,642	32,251
2012	8,000	3,870	147,729	25,720
2013	8,000	3,630	150,493	18,436
2014	8,000	3,390	153,390	11,604
2015	8,000	3,150	46,241	5,790
2016-2020	45,000	11,970	72,998	12,822
2021-2025	52,000	4,770	52,000	4,770
Total	\$ 136,000	34,860	781,493	111,393

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2010 was \$ 9,408 equal to the required contribution for the year.

(5) Other Postemployment Benefits (OPEB)

The City implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions during the year ended June 30, 2010.

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 3 active members in the plan. Participants must be age 55 or older at retirement.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$ 801 for family coverage. For the year ended June 30, 2010, the City contributed \$ 29,568 to the plan and plan members eligible for benefits contributed \$ 0 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2010, primarily related to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 1,000
Sick leave	<u>8,000</u>
Total	<u>\$ 9,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ 25,000
	Library Memorial	<u>2,849</u>
Total		<u>\$ 27,849</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$ 150 during the year ended June 30, 2010.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Commitments and Contingencies

- A. The City has agreed to guaranty 50% of the Edgewood Child Care and Development Center's United States Department of Agriculture loan, which has a balance of \$ 130,705 at June 30, 2010.

- B. In October 2009 the City entered into a construction contract for \$ 1,407,000 for a wastewater treatment plant project to be financed with \$ 550,000 of sewer revenue bonds and Iowa Finance Authority and Community Development Block Grants. At June 30, 2010 \$ 209,816 had been spent under this contract.

(11) Deficit Balances

The Capital Project Fire EMS Facility, the Capital Project 2009 Housing and the Capital Project Residential Development Funds had a combined deficit balance of \$ 25,909 at June 30, 2010. The deficit balances were a result of project costs incurred prior to availability of funds. The deficits will be eliminated upon receipt of federal and state grants.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EDGEWOOD
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES-
BUDGET AND ACTUAL (CASH BASIS)-ALL GOVERNMENTAL AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 238,027	-	238,027	232,176	232,176	5,851
Tax increment financing	209,577	-	209,577	196,789	196,789	12,788
Other city tax	67,768	-	67,768	74,550	74,550	(6,782)
Licenses and permits	3,025	-	3,025	3,450	3,450	(425)
Use of money and property	15,861	1,832	17,693	22,960	22,960	(5,267)
Intergovernmental	131,870	306,248	438,118	108,162	108,162	329,956
Charges for service	107,432	216,734	324,166	335,975	335,975	(11,809)
Special assessments	17,914	-	17,914	5,791	15,791	2,123
Miscellaneous	79,204	8,602	87,806	103,700	240,700	(152,894)
Total receipts	870,678	533,416	1,404,094	1,083,553	1,230,553	173,541
Disbursements:						
Public safety	92,513	-	92,513	99,338	119,338	26,825
Public works	140,709	-	140,709	172,120	172,120	31,411
Health and social services	1,000	-	1,000	1,000	1,000	-
Culture and recreation	118,788	-	118,788	178,780	267,780	148,992
Community and economic development	220,766	-	220,766	215,294	232,294	11,528
General government	103,118	-	103,118	100,629	114,629	11,511
Debt service	39,856	-	39,856	41,500	41,500	1,644
Capital projects	253,353	-	253,353	225,000	413,000	159,647
Business type activities	-	561,423	561,423	206,804	957,804	396,381
Total disbursements	970,103	561,423	1,531,526	1,240,465	2,319,465	787,939
Excess (deficiency) of receipts over (under) disbursements	(99,425)	(28,007)	(127,432)	(156,912)	(1,088,912)	961,480
Other financing sources, net	365,000	-	365,000	327,000	1,252,000	(887,000)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	265,575	(28,007)	237,568	170,088	163,088	74,480
Balances beginning of year	514,280	152,391	666,671	567,629	567,629	99,042
Balances end of year	\$ 779,855	124,384	904,239	737,717	730,717	173,522

See accompanying independent auditor's report and notes to required supplementary information-budgetary reporting.

CITY OF EDGEWOOD

Notes to Required Supplementary Information - Budgetary Reporting

June 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$ 1,079,000. The budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

Schedule 1

CITY OF EDGEWOOD
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 As of and for the Year Ended June 30, 2010

	Special Revenue					Capital Projects				Total
	Library Memorial	Special Assessment Notes	Road Use Tax	Employee Benefits	Playground Structure	Debt Service	Fire EMS Facility	2009 Housing	Residential Development	
Receipts:										
Property tax	\$ -	-	-	32,420	-	40,277	-	-	-	72,697
Use of money and property	37	-	-	-	-	-	-	-	-	37
Intergovernmental	-	-	85,619	-	-	-	-	-	-	85,619
Special assessments	-	17,914	-	-	-	-	-	-	-	17,914
Miscellaneous	2,226	-	-	-	-	-	-	-	-	2,226
Total receipts	2,263	17,914	85,619	32,420	-	40,277	-	-	-	178,493
Disbursements:										
Operating:	-	-	79,144	-	-	-	-	-	-	79,144
Public works	-	-	-	-	373	-	-	-	-	373
Culture and recreation	-	-	-	28,780	-	-	-	-	-	28,780
General government	-	-	-	-	-	39,856	-	-	-	39,856
Debt service	-	-	-	-	-	-	2,800	15,959	-	18,759
Capital projects	-	-	-	-	-	-	-	-	-	-
Total disbursements	-	-	79,144	28,780	373	39,856	2,800	15,959	-	166,912
Excess (deficiency) of receipts over (under) disbursements	2,263	17,914	6,475	3,640	(373)	421	(2,800)	(15,959)	-	11,581
Other financing uses:										
Operating transfers out	(2,849)	-	-	-	-	-	-	-	-	(2,849)
Net change in cash balances	(586)	17,914	6,475	3,640	(373)	421	(2,800)	(15,959)	-	8,732
Cash balances beginning of year	7,470	18,128	29,121	4,631	373	733	-	-	(7,150)	53,306
Cash balances end of year	\$ 6,884	36,042	35,596	8,271	-	1,154	(2,800)	(15,959)	(7,150)	62,038
Cash Basis Fund Balances										
Reserved:										
Debt service	\$ -	36,042	-	-	-	1,154	-	-	-	37,196
Unreserved, undesignated										
Special revenue funds	6,884	-	35,596	8,271	-	-	-	-	-	50,751
Capital project funds	-	-	-	-	-	-	(2,800)	(15,959)	(7,150)	(25,909)
Total cash basis fund balances	\$ 6,884	36,042	35,596	8,271	-	1,154	(2,800)	(15,959)	(7,150)	62,038

See accompanying independent auditor's report.

Schedule 2

CITY OF EDGEWOOD
 SCHEDULE OF INDEBTEDNESS
 Year Ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation notes:								
Corporate purpose	Apr 15, 2003	4.00%	\$ 410,000	59,810	-	59,810	-	1,549
Street improvement	Feb 28, 2007	4.65	280,000	228,084	-	29,591	198,493	10,296
Equipment acquisition	Jul 28, 2008	4.25	29,000	29,000	-	14,500	14,500	1,850
				<u>\$ 316,894</u>	-	<u>103,901</u>	<u>212,993</u>	<u>13,695</u>
Urban renewal tax increment financing (TIF) revenue notes								
	May 6, 2003	6.87%	\$ 125,000	69,449	-	11,943	57,506	3,698
	Aug 12, 2009	4.25	350,000	-	350,000	-	350,000	11,941
				<u>\$ 69,449</u>	<u>350,000</u>	<u>11,943</u>	<u>407,506</u>	<u>15,639</u>
Revenue bonds:								
Water	Aug 3, 2005	3.00%	\$ 174,000	<u>\$ 143,000</u>	-	<u>7,000</u>	<u>136,000</u>	<u>4,290</u>
Contract payable:								
Street improvement	Sep 9, 2008	4.00%	\$ 30,654	<u>\$ 30,654</u>	-	<u>5,660</u>	<u>24,994</u>	<u>1,226</u>

See accompanying independent auditor's report.

CITY OF EDGEWOOD
BOND AND NOTE MATURITIES
June 30, 2010

Year Ending June 30,	General Obligation Notes				Contract Payable	
	Street Improvement Issued Feb 28, 2007	Equipment Acquisition Issued Jul 28, 2008	Interest Rates	Amount	Street Improvement Issued Sep 9, 2008	Interest Rates
2011	4.65%	4.25%	31,002	14,500	4.00%	5,886
2012	4.65	-	32,461	-	4.00	6,122
2013	4.65	-	34,029	-	4.00	6,367
2014	4.65	-	35,652	-	4.00	6,619
2015	4.65	-	37,353	-	-	-
2016	4.65	-	27,996	-	-	-
Total			198,493	14,500		24,994

Year Ending June 30,	Urban Renewal Tax Increment Financing (TIF) Revenue Notes				Revenue Bonds	
	Issued May 6, 2003	Issued Aug 12, 2009	Interest Rates	Amount	Water Issued Aug 3, 2005	Interest Rates
2011	6.87%	4.25%	12,754	87,500	3.00%	7,000
2012	6.87	4.25	13,646	87,500	3.00	8,000
2013	6.87	4.25	14,599	87,500	3.00	8,000
2014	6.87	4.25	15,619	87,500	3.00	8,000
2015	6.87	-	888	-	3.00	8,000
2016	-	-	-	-	3.00	9,000
2017	-	-	-	-	3.00	9,000
2018	-	-	-	-	3.00	10,000
2019	-	-	-	-	3.00	10,000
2020	-	-	-	-	3.00	10,000
2021	-	-	-	-	3.00	10,000
2022	-	-	-	-	3.00	10,000
2023	-	-	-	-	3.00	10,000
2024	-	-	-	-	3.00	11,000
2025	-	-	-	-	3.00	11,000
Total			57,506	350,000		136,000

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Edgewood, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 13, 2010. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by activity of cash basis net assets and by fund of the cash balances at July 1, 2009. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Edgewood's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Edgewood's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Edgewood's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency,

or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses. We consider the deficiencies in the City's internal control described in Part I of the accompanying Schedule of Findings as items I-A-10 and I-B-10 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Edgewood's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Edgewood's responses to findings in our audit are described in the accompanying Schedule of Findings. While we expressed our conclusions on the City's responses, we did not audit the City of Edgewood's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Edgewood and other parties to whom the City of Edgewood may report and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Edgewood during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

August 13, 2010

Dietz, Donald & Company
Dietz, Donald & Company, CPAs
FEIN 42-1172392

CITY OF EDGEWOOD
SCHEDULE OF FINDINGS
Year Ended June 30, 2010

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

I-B-10 Financial Reporting - As is common in small organizations, the City does not prepare its financial statements, complete with notes, in accordance with U.S. generally accepted accounting principles. Accordingly, the City is unable to, and has not established internal controls over the preparation of financial statements.

Recommendation - As part of the audit, we have been requested to prepare a draft of the City's financial statements, including related notes to the financial statements. The City then performs a review of the financial statements. However, in order to provide improved oversight of the financial preparation services and implement controls over the financial reporting process the City should establish review policies and procedures including the performance of some or all of the following functions:

Review the adequacy of financial statement disclosures.

Review and approve schedules and calculations supporting

amounts included in the notes to the financial statements.

Apply analytical procedures to the draft financial statements.

Apply other procedures as considered necessary by the City.

Response - We will consider this.

Conclusion - Response acknowledged.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-10 Certified Budget - Disbursements for the year ended June 30, 2010, did not exceed the amounts budgeted.

II-B-10 Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-C-10 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-10 Business Transactions - Business Transactions between the the City and City officials are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction description</u>	<u>Amount</u>
Brad Perrinjaquet, Council Member, Sole Proprietor	Water Treatment Plant	<u>\$ 150</u>

In accordance with Chapter 362.5(11) of the Code of Iowa, the transaction with the Council Member does not appear to represent a conflict of interest since total transactions with the individual were less than \$ 2,500 during the fiscal year.

II-E-10 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

II-F-10 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-10 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-10 Revenue Bonds and Notes - The City has complied with the revenue bond and note resolutions.

II-I-10 Financial Condition - The Capital Projects: Fire/EMS Facility, 2009 Housing, and Residential Development Funds had deficit balances of \$ 2,800, \$ 15,959 and \$ 7,150 respectively, at June 30, 2010.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to sound financial positions.

Response - The deficit balances were a result of project costs being incurred prior to availability of funds. The deficits will be eliminated upon receipt of a federal and state grant proceeds.

Conclusion - Response accepted.